



Multifamily Selling and Servicing Guide

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Section 504 Seniors Housing Property Income

504.01 Underwritten NCF

Requirements

You must use the following table to calculate Underwritten NCF for Seniors Housing Properties.

REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
CALCULATION OF NET RENTAL INCOME		
1		GROSS RENTAL INCOME actual rents in place for occupied units, plus market rents for vacant units based on a current rent roll (multiplied by 12).
2	PLUS	Medicaid income (does not include Medicare, which is included in Skilled Nursing income).
3	PLUS	Skilled Nursing income actual trailing 12-month collections for Skilled Nursing units (if 12-month collections are not available, then actual trailing 6-month collections (annualized)). ¹
4	PLUS	To the extent deducted as an operating expense, rents for other non-revenue units (e.g., model units deducted in the model apartment operating expense in the general and administrative category, or actual rent from employee units deducted in the employee operating expense in the payroll and benefits category).
	EQUALS	GROSS POTENTIAL RENT (GPR)
5	MINUS	Physical vacancy market rents for vacant units based on a current rent roll (multiplied by 12). ²
6	MINUS	Concessions the aggregate amount of forgone residential rental income resulting from incentives granted to tenants for signing leases, such as free rent for 1 or more months, move-in allowance, etc. ²



**REQUIRED UNDERWRITTEN NCF
(SENIORS HOUSING PROPERTY)**

Item	Function	Description
7	MINUS	Bad debt the aggregate amount of unpaid rental income determined to be uncollectable: include any adjustments to other income for bad debt. ²
	EQUALS	NET RENTAL INCOME (NRI) ¹

¹Skilled Nursing income must not be grossed up to 100% before the 20% deduction is applied. An additional 20% is taken off the Skilled Nursing income.

²The total of Items 5, 6, and 7 must equal the greater of:

- the difference between the trailing 3-month net rental collections (annualized) and the GPR; or
- the following percentages:
 - Independent Living: if the percentage of Independent Living units is greater than 50%, then use 5% of GPR.
 - Assisted Living (60 total units or more): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimers/Dementia Care units is 50% or greater, then use 5% of GPR.
 - Assisted Living (less than 60 total units): if the percentage of Assisted Living units or the combined percentage of Assisted Living and Alzheimers/Dementia Care units is 50% or greater, then use 10% of GPR.
 - Alzheimers/Dementia Care: if the percentage of Alzheimers/Dementia Care units is 100%, then use 10% of GPR.
 - Skilled Nursing units: use 20% of collections based on the trailing period used in determining Skilled Nursing income in Item 3.

You must determine if NRI declined per [Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis](#) and adjust Underwritten NRI as required.

CALCULATION OF ASSISTED LIVING SERVICE INCOME AND OTHER INCOME

8	PLUS	Trailing 12-month nursing/medical income (includes Assisted Living service income).
9	PLUS	Trailing 12-month ancillary income attributable to Skilled Nursing units, if applicable.



REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
10	PLUS	Trailing 12-month other income for second resident fees, meals, tray service, laundry, special transportation, community fees, parking revenue, and any other income.
CALCULATION OF NET ENTRANCE FEE INCOME		
11	PLUS	Net entrance fee income associated with CCRCs resident entrance fee collections minus entrance fee refunds, but not more than the annualized average of the trailing 60-months of net entrance fee income.
CALCULATION OF COMMERCIAL INCOME		
12	PLUS	Actual income from occupied commercial space (and parking revenue for commercial spaces, if applicable).
13	MINUS	10% of the actual commercial income. ³
	EQUALS	EFFECTIVE GROSS INCOME (EGI)
3If net commercial income is greater than 20% of EGI, then reduce to 20% of EGI.		
CALCULATION OF OPERATING EXPENSES		



REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
14	MINUS	<p>Line-by-line stabilized operating expenses.</p> <p>Stabilized operating expenses are the expenses during normal ongoing Property operations, not affected by a lease-up, rehabilitation, or other short-term positive or negative factors. Non-recurring, extraordinary operating expenses must not be included.</p> <p>You must assess:</p> <ul style="list-style-type: none"> • past operating history; • the appraisers expense analysis; • all information available to you (including Property contracts, utility bills, real estate tax assessments, insurance policies, and comparable assets); and • the Borrowers budget (in the case of an acquisition). <p>You must analyze historical operations at the Property and apply an appropriate increase over the prior years operations in determining an estimate.</p>
15	MINUS	<p>Property management fee equal to the greatest of:</p> <ul style="list-style-type: none"> • 5% of EGI; • actual property management fee (exclude any portion of a non-arms-length property management fee that is subordinated to the Mortgage Loan); or • market property management fee.



**REQUIRED UNDERWRITTEN NCF
(SENIORS HOUSING PROPERTY)**

Item	Function	Description
16	MINUS	<p>Real estate taxes based on the greatest of:</p> <ul style="list-style-type: none"> • actual future tax bill(s) covering a full calendar year; • prior full years taxes multiplied by 103% (the 3% trending is not required for trailing 12-month or year-to-date annualized expenses); or • in California, the greater of the Mortgage Loan amount or the assessed value, multiplied by the millage rate, plus any special assessments. <p>You must consider any automatic tax reassessment upon acquisition in the next 12-month period.</p> <p>If the Property has real estate tax abatements, exemptions, or deferrals, they must:</p> <ul style="list-style-type: none"> • be in effect at closing, per written documentation from the state or local tax assessor; and • survive a foreclosure on the Mortgage Loan such that Fannie Mae or a subsequent owner will retain the abatement, exemption, or deferral benefit (i.e., it is tied to the Property and not the owner).



**REQUIRED UNDERWRITTEN NCF
(SENIORS HOUSING PROPERTY)**

Item	Function	Description
16 continued	MINUS	<p>If the timeframe for the real estate tax abatement, exemption, or deferral is shorter than the Mortgage Loan term, you must consider</p> <ul style="list-style-type: none"> • a Bifurcated Mortgage Loan structure (i.e., 2 notes secured by a single first Lien Security Instrument), • an amortization schedule that accommodates the elimination of the abatement, or • providing clear justification and support in the refinance analysis. <p>If the Property is located in New York City and subject to the J-51 Tax Incentive Program where the Borrower has decontrolled rent-stabilized units (a Decontrol Event), you must adjust the current rents to reflect no rent decontrol benefits:</p> <ul style="list-style-type: none"> • Calculate the base rent as the rent amount per unit before the Decontrol Event date. • Use the base rent for each applicable unit to determine the Gross Rental Income. • Increase the base rent by the appropriate percentage allowed under New York City Rent Stabilization laws per annum through the present rent roll date.
17	MINUS	<p>Insurance equal to:</p> <ul style="list-style-type: none"> • the quoted expense, for insurance policies with a bona fide written quote from a reputable broker for a new 12-month policy; or • 110% of the current expense, for insurance policies with a remaining term less than 6 months.
18	MINUS	Room expense housekeeping, if applicable.
19	MINUS	Meals expense, if applicable.



REQUIRED UNDERWRITTEN NCF (SENIORS HOUSING PROPERTY)		
Item	Function	Description
20	MINUS	Utilities, water and sewer, repairs and maintenance, payroll and benefits, advertising and marketing, professional fees, general and administrative, ground rent, and all other expenses per Part II, Chapter 2: Valuation and Income, Section 202: Income Analysis .
	EQUALS	UNDERWRITTEN NET OPERATING INCOME (UNDERWRITTEN NOI)
21	MINUS	Replacement Reserve expense per Part III, Chapter 5: Seniors Housing Properties, Section 505: Replacement Reserve .
	EQUALS	UNDERWRITTEN NCF

504.02 Skilled Nursing NCF Test

Requirements

Fannie Mae will not purchase any Mortgage Loan if the Skilled Nursing NCF is more than 20% of the Property's NCF.

You must:

- Calculate the Skilled Nursing NCF at underwriting to determine if the Property will meet this Skilled Nursing NCF test.
- Retest all Properties with Skilled Nursing units annually after closing to ensure compliance.
- Contact the Fannie Mae Deal Team to ensure the Loan Documents for any transaction with Skilled Nursing units include appropriate modifications.

The Skilled Nursing NCF test is a Property-specific test. You must separately test a Property with Skilled Nursing units, if the Mortgage Loan is

- secured by multiple Properties, or
- cross-defaulted or cross-collateralized with another Mortgage Loan.

You must use the following table to calculate the Skilled Nursing NCF.



REQUIRED SKILLED NURSING NCF AND PERCENTAGE (SENIORS HOUSING PROPERTY)		
Item	Function	Description
SKILLED NURSING EFFECTIVE GROSS INCOME		
1		SKILLED NURSING INCOME actual trailing 12-month collections for Skilled Nursing units (if 12-month collections are not available, then actual trailing 6-month collections (annualized)).
2	MINUS	20% of collections based on the trailing period used in determining the Skilled Nursing income.
3	PLUS	Ancillary income attributable to Skilled Nursing units.
	EQUALS	SKILLED NURSING EFFECTIVE GROSS INCOME (EGI)
SKILLED NURSING EXPENSES		
4	MINUS	Fixed expenses greater of actual or allocated fixed expenses (e.g., real estate taxes, liability insurance, etc.) for Skilled Nursing units.
5	MINUS	Variable operating expenses for Skilled Nursing units.
	EQUALS	SKILLED NURSING NCF
6	DIVIDED BY	Underwritten NCF per Part III, Chapter 5: Seniors Housing Properties, Section 504.01: Underwritten NCF.
	EQUALS	SKILLED NURSING NCF PERCENTAGE

504.03 Operating Lease Ratios

Requirements

If the Seniors Housing Operator

- does not have any direct or indirect ownership interest in the Borrower or the Key Principal, or
- is not a Person Controlled by, under common Control with, or which Controls, the Borrower or Key Principal, then you must ensure that the



Property meets the following ratios:

Ratios	Requirements
Operating Lease Coverage Ratio	The minimum underwriting ratios for Underwritten NCF to current year operating lease payments are: <ul style="list-style-type: none">• 1.10 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and• 1.15 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimers/Dementia Care, or Skilled Nursing units.
Operating Lease Payment to Debt Service Payment Ratio	The minimum underwriting ratios of the current year operating lease payments to the underwritten fixed rate debt service payments are: <ul style="list-style-type: none">• 1.15 for Seniors Housing Properties where more than 50% of the units are Independent Living units; and• 1.20 for Seniors Housing Properties where 50% or more of the units are Assisted Living, Alzheimers/Dementia Care, or Skilled Nursing units.

504.04 Operating Lease Analysis

Requirements

Before finalizing the Loan Documents, you must:

- Obtain a copy of each management agreement, operating lease, master lease, and sublease including all exhibits and amendments.
- Upload into DUS Gateway a completed Seniors Housing Operating Lease Review Checklist (Form 6487.SRS) that analyzes the
 - underwriting and legal aspects of each lease and its impact on the operations of the Property, and
 - obligations of the Borrower, each Guarantor, and the Seniors Housing Operator under the Loan Documents.



Glossary

A

Assisted Living

Seniors Housing Property offering services limited to non-medical personal care, including ADL assistance, which are typically licensed and regulated by a state or local governmental authority.

Synonyms

- AL

B

Bifurcated Mortgage Loan

Single Senior Mortgage Loan that is evidenced by 2 Notes with the same payment and collateral priority.

Synonyms

- Bifurcated Mortgage Loans

Borrower

Person who is the obligor under the Note.

Synonyms

- Borrowers
- Borrower's

C

Control

Possessing, directly or indirectly, the power to direct or cause the management and operations of an entity (e.g., through the ownership of voting securities or other ownership interests, or by contract).

Synonyms

- Controlling
- Controlled
- Controls

D



Decontrol Event For Properties located in New York City, an event that causes a property or unit to be removed from rent control but subject to rent-stabilization pursuant to New York City rent stabilization laws.

DUS Gateway Multifamily pre-acquisition system including deal registration, Pre-Review and/or waiver tracking, decision records, or any successor systems.

F

Fannie Mae Deal Team Team responsible for reviewing Pre-Review Mortgage Loans, waivers, etc.

Synonyms

- Deal Team

G

Guarantor Key Principal or other Person who executes a Payment Guaranty, a Non-Recourse Guaranty, or any other guaranty in connection with the Mortgage Loan.

Synonyms

- Guarantors

I

Independent Living Seniors Housing providing limited programs of assistance for domestic activities (e.g. meals, housekeeping, activities, transportation, etc.), and typically resembles market rate units.

Synonyms

- IL

K



Key Principal

Person(s) who control and/or manage the Borrower or the Property, are critical to the successful operation and management of the Borrower and the Property, and who may be required to provide a Guaranty.

Synonyms

- Key Principals

L

Lease

Written agreement between an owner and the tenant of a Property stipulating the conditions for possession and use of real estate for a specified period of time and rent.

Synonyms

- Leases

Lien

Lien, mortgage, bond interest, pledge, security interest, charge, or encumbrance of any kind.

Synonyms

- Liens

Loan Documents

All documents evidencing, securing, or guaranteeing the debt obligation executed for a Mortgage Loan and approved by Fannie Mae.

Synonyms

- Loan Document
- Mortgage Loan Document
- Mortgage Loan Documents

M

Mortgage Loan

Mortgage debt obligation evidenced, or when made will be evidenced, by the Loan Documents or a mortgage debt obligation with a Fannie Mae credit enhancement.

Synonyms

- Mortgage Loans



P

Person Legal person, including an individual, estate, trust, corporation, partnership, limited liability company, financial institution, joint venture, association, or other organization or entity (whether governmental or private).

Synonyms

- Persons

Property Multifamily residential property securing the Mortgage Loan and including the land (or Leasehold interest in land), Improvements, and personal property (as defined in the Uniform Commercial Code).

Synonyms

- Properties
- Property's

R

Replacement Reserve Custodial Account established by the Lender and funded by deposits from the Borrower over the term of the Mortgage Loan to fund the replacement of capital items at the Property.

Synonyms

- Replacement Reserves

S

Security Instrument Instrument creating a lien or encumbrance on 1 or more Properties and securing the obligations under the Loan Documents.

Skilled Nursing Seniors Housing Property with units that are highly regulated and provide 24-hour resident supervision and registered nursing care services.